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# Carlyle backs bid for the top with $30bn war chest

## A string of successes and global backing help the group reject criticism it is too diversified, writes Oliver Smiddy

Carlyle Group is one of the world's most diversified private equity groups, but despite branching into technology-focused growth capital, real estate and leveraged finance, buyouts remain its core focus.

The firm, whose stated aim is to be the premier global private equity group, has 57 active funds spread across four sub-divisions and countless geographical territories. It also has about $30bn (€20bn) awaiting deployment.

It has assets under management of $74.9bn, and has raised $83.5bn over its 21-year lifespan, according to a spokeswoman.

Such diversity and scale has drawn criticism that it is too unfocused, is an asset-gatherer rather than a pure private equity firm, and that it garners commitments due to its name rather than a history of stellar exits. Some have suggested that firms including Carlyle and Blackstone have more in common with investment banks such as Goldman Sachs than with their buyout peers.

Yet exits such as Firth Rixson, a UK aerospace components manufacturer which generated a nine-times return for Carlyle when sold in November last year, prove the firm is capable of engineering impressive exits.

It can also point to backing from some of the world's most influential investors. The California Public Employees' Retirement System, the largest pension fund in the US, had committed more than $1.9bn across 21 Carlyle funds as of June last year, according to the fund's website. Those funds have delivered an average 1.5-times investment multiple, according to Calpers data.

Carlyle aims for at least top-quartile performance for each of its funds, with the bar set at top-decile level for the buyout funds, according to sources.

Its performance record has attracted more than 1,100 investors. Two of the larger ones have acquired stakes in the firm itself. The first was Calpers, which began building a stake in 2000 that now stands at 5.5%.

More recently, Abu Dhabi Government-owned investment group Mubadala Development Agency paid $1.4bn for a 7.5% stake in September last year.

Carlyle co-founder David Rubenstein, speaking at the time of the deal, said: "These resources (the proceeds from the sale to Mubadala), like the earlier investment by Calpers, will add to Carlyle's capital bases, expand our business and be used for investments."

Not all investors are clamouring to gain access to the firm, however. A source at a fund-of-funds group said: "We have never invested with them, chiefly because they are a combination of asset gatherers and people with a great network which allows them to attract politically sensitive deals. That's their real strength. Look at the number of defence and security-related transactions they have done in the past. They are second to none in that field. And as an investor you either

**Active Carlyle funds**

| Category | Focus | No. | Combined size $bn | Category | Focus | No. | Combined size $bn |
|---|---|---|---|---|---|---|---|
| Buyout | Global | 3 | 13.1 | Venture capital | Global | 3 | 1.4 |
| | Europe | 3 | 10.3 | | Europe | 2 | 0.8 |
| | Asia | 2 | 2.6 | | Asia | 3 | 1.0 |
| | Japan | 2 | 2.3 | Leveraged finance | Global | 17 | 9.7 |
| | Mexico | 1 | 0.1 | Mezzanine | Global | 2 | 0.8 |
| | Energy * | 3 | 1.4 | Real estate | Global | 5 | 5.1 |
| | Infrastructure | 1 | 1.1 | | Europe | 2 | 1.4 |
| | | | | | Asia | 1 | 0.4 |

*Source: Carlyle Group and Financial News*

* In partnership with Riverstone

like that or you don't. They tend to provoke a black or white reaction."

Some investors are attracted to Carlyle's range of products. Michael Russell, a partner at Altius Associates, an adviser to private equity investors, said: "Carlyle's breadth of products means an investor can select which strategy suits them. Our investments with them are based on a buyout-centric strategy, for example. They have a strong, disciplined approach and have managed to maintain that as they have grown."

Founded in 1987 by William Conway, Daniel D'Aniello and Rubenstein, what was initially a US-centric firm has evolved into an organisation now entrenched in European and Asian markets.

Glenn Youngkin, a Washington-based managing director at Carlyle and head of its global industrial team, said: "Carlyle was set up with a unique structure specialising in eight primary sectors, designed to be size-agnostic on deals."

Carlyle employs 563 investment staff based in 33 offices in 21 countries. The global office network is integral to the group's strategy, helping reduce risk through geographical diversification and providing access to expertise and contacts across national boundaries. The geographic matrix is then overlaid with other fund types to help protect the business from overexposure to one asset class.

Jean-Pierre Millet, a managing director and founder of Carlyle Europe, said: "We have benefited from our scale without becoming a bureaucracy – most of my team's time is spent investing the European fund in Europe, but it draws on our network to help source and execute deals. We are a solid collection of independent funds, trying to leverage scale by developing a pattern of helping one another and sharing expertise – it's what we call the 'One Carlyle' strategy."

The buyout group has always been the heart of Carlyle. Millet said: "While we probably have the most diversified business in the sector, most of our capital is positioned as pure private equity, and our buyout practice is the biggest and most global out there."

The European buyout arm was launched in 1997 with its headquarters in Paris. Its maiden fund, raised in 1998, was the firm's first outside the US and has generated top-quartile returns, according to investor sources. Carlyle Europe Partners II, which closed in 2003 with €1.8bn ($2.6bn) in commitments, had delivered a 2.1-times multiple and a net internal rate of return of 51.5% as of June last year, according to Calpers. Other investor sources said the IRR was nearer 70% by now, yielding top-decile performance.

The group began raising its third fund in 2006, initially gunning for €3.5bn but later raising the target to €5bn. It closed fundraising at €5.35bn in November. Fund III will be about 20% invested when the acquisition of a stake in French cable company Numericable completes later this month, according to sources. The European funds have delivered a cumulative gross IRR of 34%, sources said.

Millet said the group was flexible on deal sizes owing to the firm's ability to raise co-investment capital to boost overall firepower. Its attitude to leverage is also symptomatic of its conservative approach. He said: "Gearing is standard market practice, but we typically have not taken the full debt package on offer over the past few years. We equitise our transactions appropriately so that the amount of leverage does not suffocate the deal structure."

Countering claims it is more of an asset-gatherer than a true private equity firm, Millet said: "We spend a lot of time with our companies, especially in the first few months. We always have a 100-day plan, for example. We often put in place add-on programmes and help to scale businesses by tapping into our global network of expertise and contacts."

The buyout group interacts with other elements of the firm, however. One of those other elements is the European technology group, which grew from the firm's venture capital practice.

David Fitzgerald, a managing director and head of the European technology practice, said: "We sit within a team of investment professionals from all over the world. In our target space, no one can match the global network that we can draw on. We have access to expertise in the US, China, Japan – that's a huge attraction and differentiating factor.

***We have benefited from our scale without becoming a bureaucracy***

Jean-Pierre Millet,
Carlyle Europe

"If the large buyout guys see deals that fall beneath their minimum deal bracket they will pass them on to us. Likewise, if we see companies above our range, we'll pass them to the Carlyle European Partners buyout team."

In 2001, Carlyle hired Wolfgang Hanrieder and Fitzgerald to lead the nascent technology group, tasking them with resurrecting a technology venture capital fund that had invested into the bubble and been burnt as a result.

Fitzgerald said: "Hanrieder and I were brought in to move the fund's strategy from venture capital towards growth capital and buyouts.

"That strategy was founded on an appraisal of the market that we did when we started. It was clear the big boys were getting bigger, but the venture capitalists were not willing to move into that vacated space because of the fallout from the bubble bursting. That left a gap in the middle that was too good to miss. As a result, we focused our strategy on small-cap buyouts in European technology, media and telecommunications – a sector with a huge number of opportunities."

The group raised a €200m ($290m) interim fund in 2005, which will be fully invested following completion of the buyout of Spanish internet services group Arsys. Deal highlights for the group include German human resource software group Personal & Informatik, which yielded a three-times return following an exit in August last year.

As Carlyle continues to grow, its challenge will be to retain its conservative and diligent approach to investing with almost $30bn waiting to be deployed. Yet in the current downturn, the firm is in no hurry to do deals.

Millet said: "We've learnt to be patient and disciplined in our investment approach – in 2001, we went 18 months without investing any capital, and in 2005, we went 12 months. When we do not see value, we won't invest."


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